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RUEHTU/AMEMBASSY TUNIS 6960
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C O N F I D E N T I A L SECTION 01 OF 03 ALGIERS 000024

SIPDIS

SIPDIS

TREASURY FOR DAS L.MCDONALD AND OTA - W.SUDMAN
CAIRO PASS TO USTREAS CASEVERENS
ABU DHABI PASS TO USTREAS PGMULLINAX
CASABLANCA PASS TO FCS RORTIZ
COMMERCE PASS TO JREITZE

E.O. 12958: DECL: 01/08/2018

TAGS: EFIN EINV AG

SUBJECT: ALGERIA: PRIVATIZATION (SLOWLY) MOVING AHEAD

REF: A. ALGIERS 1748

1B. ALGIERS 1638

Classified By: Ambassador Robert Ford for reasons 1.4 (d) and (e).

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11. (SBU) SUMMARY: Algeria's head of financial reform told Ambassador January 7 that Algeria has not retreated from its plan to privatize the large CPA bank. Rather, the government is waiting for the right market conditions to guarantee maximum value for its flagship parastatal and to ensure a competitive bidding process. The Ministry also requested further technical assistance in the form of experts who could spend several weeks at select financial institutions to advise on issues of credit and investment risk assessment and management. Meanwhile, the government has announced other privatization plans in heavy industry, and we see progress in the bid of an American company to acquire an industrial parastatal. END SUMMARY.

MOVING FORWARD...PRUDENTLY

12. (C) On January 7, Fatiha Mentouri, head of financial reform and Minister-Delegate at the Ministry of Finance, told the Ambassador that Algeria will sell a majority share of the bank Credit Populaire d'Algerie (CPA) (reflets). The process will continue, she said, when the Algerians are confident that international financial markets will support a competitive bidding process. She echoed Algerian concerns that we have previously reported; the Algerians want this first bank privatization to go particularly well to give momentum to the privatization process more generally. Mentouri noted that the Algerian people need to see multiple offers from a variety of foreign banks, and the value of the offers must be high. She said that it would have been untenable to have only three French banks bidding for CPA at

a time of extreme volatility in the international banking sector. She also questioned the commitment to the Algerian market by some of the foreign banks that initially expressed interest. She said that a French bank (Credit Agricole) had told the Ministry that it was forced to pull out of the bidding for CPA because it was overextended by the subprime lending crisis, but Mentouri later learned that that French bank had purchased a Spanish bank only a week before it withdrew its bid here. Mentouri, looking straight at the Ambassador, noted that Citibank pulling out had truly put her in a tight spot.

¶3. (C) Mentouri insisted, however, that Algeria remains committed to the privatization of CPA and other banks, but it must do so prudently. The Ambassador welcomed the assurance that the privatization process would move forward at some point. He suggested Mentouri identify indicators or benchmarks by which the GoA would judge conditions to be appropriate again and explain this policy to the international financial press. This would bolster the confidence of potential investors who, the Ambassador noted, were now wondering about the GoA's reform credibility. Mentouri accepted the need to speak more to the press. (She had no particular market climate indicators to suggest when the CPA privatization might start again, however.) Looking at our new Treasury attache, she said she would seek his advice on how to improve communication between the government and the banking sector.

REQUEST FOR TECHNICAL ASSISTANCE: ADVISORS EMBEDDED IN BANKS

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¶4. (SBU) Mentouri also noted that Algeria is interested in further technical assistance from the USG, particularly in the form of experts who could help her office improve credit and investment risk assessment and management procedures at commercial banks. She acknowledged the programming we have already provided, including Treasury advisors resident at the Ministry and the Central Bank, and MEPI-funded seminars in risk management. She urged that we look at putting in a longer-term presence that would focus on changing banking credit and risk management policies, observing that a week-long seminar has only limited impact.

INDUSTRIAL SECTOR PRIVATIZATION

¶5. (U) Mentouri also told the Ambassador that the government is planning to privatize a parastatal insurance company. Meanwhile, on January 6 the government announced plans to privatize six more companies. Four are in the leather industry located in Tizi Ouzou and Setif, along the eastern coastal corridor. One is located in the eastern port city of Bejaia and is involved in construction. The sixth is a plaster company in the historic city of Ghardaia, south of Algiers.

¶6. (SBU) We also see progress regarding an American bid for an Algerian state-owned heavy cable company. Our contacts in the Ministry of Industry quietly told us in December that General Cable Corporation was recommended by the privatization council (CPE) to acquire a controlling interest in Enica Biskra cable company. An executive of General Cable later told us that the company had been so informed, and that final negotiations were pending. Although the CPE decision has yet to be announced publicly, our government contacts tell us the deal is on track, and General Cable informed us on December 30 that it is sending a team from its European offices to negotiate final contract language, including minority shareholder rights for the government. A company executive told us that, in a surprising move, the Algerians offered to negotiate options for General Cable to acquire the

remaining interest in Enica Biskra at a future date. The company executive told us that while they are somewhat concerned that the government has not publicly declared General Cable the winner of the bid, there has been no attempt to revisit the company's technical or financial offers, and thus far, the process, while slow, has been within international norms and experience.

COMMENT: SLOW AND STEADY MAY YET WIN THE RACE

¶7. (C) While the suspension of the CPA privatization sent more than a ripple of disappointment through parts of the international investment community and the ranks of government policy-making, Mentouri appeared extremely serious about putting it back on track as soon as possible. (Her sharp look at the Ambassador suggested that it was indeed the Citibank decision that caused her to halt the process, and a number of economic observers think that, in fact, the GoA did want to award CPA to Citibank.) Mentouri appears quite committed to financial sector reform and to bank privatization in particular. In fact, her knowledge of the issues is impressive, and she admitted to the Ambassador that one of her greatest challenges is pushing her cabinet colleagues who, she says, simply do not understand the financial markets. Mentouri appears to be a superb potential partner with whom we could work to address one of the biggest bottlenecks in the Algerian economy: its miserable banking sector. Our new, permanent resident Treasury advisor is

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scheduled to start work on banking supervision reform at the Central Bank on January 13 -- and the Finance Ministry's request for more assistance of a focused, technical nature, bodes well for the reform movement at the technocrat level of the Algerian government.

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